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ABSTRACT

The growth in competition for revenues, along with the advent of cable, independent television and video cassette recorders (VCR), may signify a change in the market structure of local television news. To explain if and how this change may be occurring, an explanation of economic theory as well as evidence from "Broadcast and Cable Yearbook" and Nielsen Ratings is necessary. A review of local news programs in the largest markets, the range of market shares, and the variance in the length of local news programming yields a theoretical understanding of what local television news directors have experienced in terms of economic change within recent years. The local television news market appears to be departing from its oligopolistic past where market share for the network affiliates was high, entry was difficult, and competition was limited. Rather, it is moving toward monopolistic competition where there are many sellers but where there is product differentiation. With the proliferation of cable, VCRs, and independent and satellite networks, the market is passing into a state of disequilibrium where there are more competitors for audience attention and advertiser dollars. To the extent that newsrooms are the engines of better management and technological progress, economic efficiency can help the industry. (Five tables of data and 64 notes are included.) (MS)

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THE CHANGING MARKET STRUCTURE OF LOCAL TELEVISION NEWS

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The growth rate of television advertising revenues has decreased dramatically since the early 1980's. McCann-Erickson reports a decade high of 18.4 percent in 1984 to a projected 7.0 percent in 1987. Although revenue increases have dropped, competition for them has grown.[1] This growth in competition for revenues, along with the advent of cable, independent television and VCRs, may signify a change in the market structure of local television news.

Formerly local television news markets have been defined in terms of oligopoly theory. Litman states "the market for local television news most closely corresponds to the economic market structure known as oligopoly."[2] Prisuta adds that the number of significant local television news outlets is three; therefore, local television news resembles an oligopoly.[3] With the advent of cable and low power television stations, however, the number of competitors is no longer limited. Lacy reports such an increase in viewer options may indicate a change from oligopoly to monopolistic competition, especially in the larger television markets.[4] The purpose of this paper is to look at specific factors that may be affecting the conduct variables of local television news. Litman identifies three factors that will be used as independent variables framing the discussion: number of sellers within the industry, degree of similarity of market shares, and degree of product differentiation.[5] The research question is whether the growth of cable, independent stations, and VCR use has resulted in a changing structure of some broadcast markets that makes monopolistic competition more appropriate than

oligopoly for explaining the behavior of local television news directors in those markets.

The paper will use economic theory to explain if and how the market structure of local television news may be changing. The author will use evidence from standard sources such as Broadcast and Cable Yearbook and Neilsen Ratings. For example, the author will look at the number of local news programs in the largest markets, the range of market shares, and the variance in the length of local news programming. By reviewing the literature and examining the data, the author hopes to theoretically explain what local television news directors have experienced in terms of economic changes within recent years.

Historical Market Structure of Local Television News as an Oligopoly

"A market includes a group of buyers and sellers of a particular product engaged in terms of setting terms of sale for that product."[6] A television market includes a group of buyers (advertiser) and sellers (local television stations) engaged in terms of setting prices of advertising time. Economic theory states that market structure (the environment) determines market conduct (the behavior of the economic agents within that environment) and thereby sets the level of market performance.[7] The main market structure elements and conduct variables that determine whether a monopoly, oligopoly or competitive monopoly exist in local television news include the following: seller concentration, stability of market shares, barriers to entry to new firms, and price coordination.[8]

"Any industry in which the number of competitors is limited and stable can be considered an oligopoly."[9] The important feature of this market structure is that there are so few firms that each one must take into consideration how its pricing and advertising behavior affects its rivals and

in what ways it can expect them to react.[10] This description held true for local news as well as network television. When a few hands controlled the local television industry, the stations were more dependent upon each other and found it relatively easy to reach and maintain an agreement among them.

Fierce competition was unnecessary when market shares were stable. Although local news directors would have one believe that news programs in a particular market have always been competitive, market shares, over time, show otherwise. For example, one measure of market share stability was few changes in market share rank among the firms involved. In the past, with less rivalry, market shares remained stable, with more shifting as firms recently became competitive. The more competitive markets had more change in market shares.[11] Prisuta reports that from March of 1972 to February of 1976 in a random sample of the top 100 markets, only three changes in market share rank were noted. This indicated a stable news audience, with relatively slight shifts in audience loyalty to a particular news operation.[12]

Barriers to entry were also prevalent in the industry. Few independent stations had the economic wherewithal to come into a market and compete with network affiliates. "Significant entry barriers are the sine qua non of monopoly and oligopoly."[13] In local news, barriers existed in several forms. First, there were scale-economy barriers to entry. The three existing network affiliates, in most cases, were able to supply the entire market, because of high first copy costs, making it necessary for a newcomer to "wrest from the existing firms a substantial part of their market."[14] An independent would probably have had to take some early heavy losses to do this. In addition to scale-economy barriers, absolute-cost barriers arose from several sources. Established network affiliates possessed valuable know-how concerning production techniques. Furthermore, they had exclusive government licenses to

operate, without which it was impossible to enter the market. Finally, another absolute-cost barrier was the cost of capital to a new firm[15]. The initial costs of starting a television station were extremely high due to the amount of equipment that had to be purchased, necessitating an interest surcharge by lending institutions.

Another mark of stability, in addition to low market entry, was the similar cost structures among firms. It was easy to agree upon a price when the products were homogeneous. Few, if any, new product innovations were introduced nor were existing products changed. As a result, the television stations could create similar cost structures that allowed for the joint maximizing of prices because each firm's prices were close to the prices of the whole industry.[16] The essence of oligopoly is that firms are few enough to recognize the impact of their rivals and thus the market as a whole. Before cutting or raising its advertising prices, local news had to consider the possible reactions of its rivals. The more homogeneous the oligopoly, the more likely they were to reach agreements.[17]

Previous studies have indicated that local television news operations had conformed to a spirit of cooperation and jointly maximized the entire industry's profits. In this state of equilibrium market shares were stable over time.[18] However, in recent years, the industry may be experiencing difficulty in establishing a consensus, resulting in a disequilibrium. Factors affecting this disequilibrium include the advent of cable and the increase in independent television stations, as well as the use of video recorders.

Factors Affecting Oligopolistic Price Consensus.

The number and size distribution of sellers within a market affects the process of achieving and maintaining consensus.[19] With the advent of cable,

the number of sellers has increased. "In less than three decades, cable television has become a major force in American mass communications."[20] There are 7,800 operating cable systems in this country[21] reaching 50.5% of the nation's TV households.[22] Cable has provided most of these communities with access to at least twelve stations, many of which are in distant communities and could not be received over the air prior to cable's introduction.[23] In fact, the most successful competitors of local stations appear to be imported broadcast stations.[24] As Table 1 shows, the number of competitors, including imported independents in the top twenty markets, has increased considerably. Seven cities were chosen based on available data for both years.

Table 1. Number TV Broadcast of Stations in Top Twenty Markets

Market	1981	1986
New York	9	14
Chicago	9	12
Philadelphia	7	16
Washington D.C.	7	18
Pittsburgh	6	9
Miami	7	20
Seattle-Tacoma	7	9
Mean	7.4	14

*Numbers include only those stations that appeared in the Neilsen Ratings during the late night news cast time slot, adjusted for time zone differences, November 1981 and 1986.

For example in 1981, in Washington D.C., there were seven stations listed in the November Neilsen ratings book. By 1986, that number had increased to eighteen. Examinations of the means of number of stations revealed significant t-test differences at the .05 significance level. According to Litman:

> Every additional competitor at 11 p.m., regardless of its programming format, exerts an influence on the level of competition by creating the propensity for instability of market shares.[25]

Additional stations were also evident in medium-sized markets, as Table 2 shows, although the increase was not as significant as in large markets. A sample of medium stations, ranging from 200,000 to 300,000 ADI households were chosen to study, once because of available data for both years.

Table 2. Number of TV Broadcast Stations in Medium Markets

Market	1981	1986
Springfield, MO	4	7
Southbend-Elkhart	5	5
Jackson, MS	4	5
Burlington-Plattsburgh	3	6
Baton Rouge, LA	4	4
Augusta	3	4
Mean	3.8	5.2

*Numbers include stations listed in the Neilsen Ratings during the late night news cast time slot, adjusted for time zone differences, November 1981 and 1986.

Although no increase in local news programs in either medium or large markets was evident, the additional viewer options most likely affected the number of people watching the local news programs, with many people preferring the cable alternative.

The attraction of cable television has been its ability to provide viewers with alternatives to traditional television. "As a community antenna service, cable improved reception in remote areas; as an entertainment medium, it offered uncut, uncensored feature films, and now, as a public servant, cable is offering local news."[24] When an individual adapts a new media-use

habit, such as watching cable, that habit can claim time and financial resources previously allocated by the individual to other media activities, such as watching local television news.[27] "Once people get hooked on cable, they will buy more service over time."[28] The more service they buy, the less time they will have to watch "traditional television." Therefore, the main objection to cable has been that it would jeopardize the financial viability of over-the-air broadcasting.

A study conducted in San Diego showed that in noncable homes, 96 percent of viewing was network affiliated programming; in cable homes, however, 75 percent of viewing was network affiliated programming.[29] Furthermore, Kaplan found that "subscribers to cable television reported less newspaper reading, less movie going, and less viewing of local television news."[30]

It is no surprise, then, that cable has had a significant and negative impact on local television news,[31] if for no other reason than it provided content similar to what the network affiliates provided. For example, local cable newscasts imitate the broadcast mold by using the traditional female-male anchor team, with separate newscasters for weather and sports. Such news programs arose out of cable systems' franchise-bound commitments to provide high quality programming by and for the community. However, these news shows have flourished as operators discovered audiences wanted newscasts dealing with community issues and events. Despite indepth news stories on community issues, broadcasters think of cable news as lightweight and unprofessional.[32] Nevertheless, the addition of cable news led to positive early subscriber response which, in turn, led to the development of additional news programming, resulting in an even higher subscriber valuation of cable news."[33] Although cable has been the main threat to network affiliated local news, independent stations have also gained competitive ground.

Despite independent television's rough start, there is evidence that some operators are adapting in the new marketplace. Independents have had to face the same problems as the affiliates: less revenue growth, increasing program costs, and relentless competition. It has been the "stand-alone stations, the stations backed by limited partnerships and the stations with poor market coverage that have been the independents at most risk."[34] Also, UHF independents were at a disadvantage over VHF because of inferior signals. However a report by Communications Resources Inc. says much of the bad news for the independent television industry is behind it.[35]

Research indicates that independent broadcasters offer more local-live programming than do network-affiliated stations. However, movies comprise nearly half of their overall program schedules.[36] Nevertheless, Kaplan, using viewer self-reports of change, found that independent television stations imported from outside the local area by cable compete with the local network television stations.[37] Also in competition with cable and network affiliated programming, are video cassette recorders.

Marshall McLuhan predicted that video cassettes would affect every aspect of our lives. He said they would give us new needs, goals and desires and would upset all political, educational and commercial establishments.[38] In 1983, about five million American households owned video cassette recorders.[39] In November of 1987, one-half of all television households, 44 million, had VCRs. Broadcasting and related industries are becoming increasingly concerned about the effect VCRs will have on their economic base. For example, sponsors worry about viewers deleting or fast-forwarding past commercials.[40] Furthermore, Waterman argues that VCRs offer program producers a more efficient method of selling products to the consumers by allowing them to view programming at the time of their own choosing. So far, however, VCRs are a

complement to broadcast television, since they allow time-shifting and librarying."[41] Nevertheless, growing VCR use, particularly coupled with cable subscription and independent stations, may alter audience behavior in important ways.[42]

In the early and late evening, audiences used to have to decide which local news program to watch. There were usually only up to three choices. Now viewers not only have more newscasts to choose from, they can choose to watch something other than news on one of the independent stations, cable networks, or on their VCR. This has resulted in a relative decrease in market shares for local broadcasters. While Table 3 indicates a relatively small difference in market shares for network affiliates in the top twenty markets, as well as medium markets from 1981 to 1986, it does indicate that shares have not increased significantly, as one would expect when the population continues to increase.

Table 3. Market Shares

Top 20 Stations.

Market	Network Affiliation			Network Affiliation		
	1981			1986		
	ABC	CBS	NBC	ABC	CBS	NBC
New York	24	20	22	24	20	23
Chicago	23	33	22	23	17	23
Philadelphia	30	23	18	32	21	23
Washington	24	21	18	27	24	23
Pittsburgh	32	34	16	31	34	17
Miami	34	26	22	29	17	21
Seattle/Tacoma	24	20	31	15	26	27
Mean	27.3	25.3	21.3	25.9	22.7	22.4
Overall Mean		24.6			23.6	

Medium Market Stations.

Market	Network Affiliation			Network Affiliation		
	1981			1986		
	ABC	CBS	NBC	ABC	CBS	NBC
Springfield, MO	15	23	49	1	32	43
South Bend-Elkhart	15	34	26	11	35	35
Jackson, MS	14	22	42	14	34	32
Burlington-Platbg.	NA	38	27	8	26	3
Baton Rouge, LA	41	42	7	41	39	9
Augusta	29	34	NA	41	36	NA
Mean	22.8	31.2	30.2	19.3	33.6	24.4
Overall Mean		27.2			25.8	

[a]NA refers to the absense of a network affiliate.
[b]Numbers obtained from the 1981 and 1986 November Neilsen Ratings during the late night newscast adjusted for time zone differences.

In addition to few increases in market shares, there seems to be some variance in shares within each market, as Table 4 shows, further indicating disequilibrium within the industry. The variance increased from 1981 to 1986, especially in medium-sized markets.

Table 4. Range of Market Shares

	Top Twenty Markets	
	1981	1986
Market	Difference in Shares	Difference in Shares
New York	3	4
Chicago	11	6
Philadelphia	12	11
Washington D.C.	6	3
Pittsburgh	18	17
Miami	12	12
Seattle-Tacoma	11	12
Mean	9	9.2
	Medium Markets	
Springfield	34	42
South Bend-Elkhart	19	24
Jackson, MS	28	20
Burlington-Plattsburgh	11	23
Baton Rouge, LA	35	32
Augusta	5	5
Mean	22	24.3

[a]The lowest news share was subtracted from the highest news share in a market.
[b]Number obtained from the November 1986 Neilsen Ratings, during the late night newscast adjusted for time zone differences.

Rivalry over market shares represents one facet of competition. Local television operators are very concerned about audiences for their news programs. It has become a major profit center for network affiliated stations; therefore, broadcasters seek to increase news audiences associated with revenues.[43] However, commercial affiliates have lost an average of seven percent share of the viewing between broadcast and cable viewers while the commercial independents, both local and imported, gained audience shares.[44] Furthermore, Hill and Dyer found significant diversion from local television news to distant signal local news.[45] Such diversion affects the price of advertising during local newscasts.

Because audiences as a whole do not have a direct business relationship to the stations offering local newscasts, one must look at the price charged for advertising to television news audiences. Wirth And Wollert assume that in competitive markets, advertising prices would be lower. In fact, they found that local television news prices were lowered by increases in market cable penetration and that local television news prices were increased when stations operated in more highly concentrated television markets. "Clearly, the negative effect cable television has on broadcast audiences results in lower advertising prices and ultimately lower revenues."[46] Therefore, they concluded that there was no question that increases in cable penetration resulted in reduced broadcast revenues and audiences.

In an effort to win back audiences, local news has attempted to increase its degree of product differentiation. Product differentiation exists when consumers form different preferences among the individual newscasts.[47] Traditionally, persons unacquainted with the personalities of local news would have had trouble distinguishing anything individual about any one station in terms of its news.[48] Viewers simply favored the news programs they watched the most. There was little to suggest that any news program was better at satisfying needs than any other.[49] However, in research done on why people watch one channel over another, it was found almost thirty percent reported they watched one local television new program over another because of the quality or the format of the newscast. "Twenty-eight percent reported it was the newcasters, nineteen percent could not give a reason, twelve percent said it was out of habit and eleven percent reported it was the time the newscast aired."[50] Since people are aware of differences in newscasts, does local television news operating under more competitive conditions have more distinctly different types of stories?

Local newscasts are locally produced; therefore, stations have full control over how their product is differentiated. Atwater found that in the larger markets, a greater number of unique news stories were broadcast. "A unique story is a local news item broadcast by only one television station within a market on the same news day."[81] Stations differed significantly in the amount of time which each devoted to feature, human interest and human news content. Only 16 percent of local news items broadcast by two metropolitan stations were duplicated stories.[82] This suggest that in larger, possibly more competitive markets, more product differentiation takes place. "In the intensely competitive markets where there are more than just a few stations, it appears that product competition is important in making business decisions."[83] Lacy suggests one way to differentiate a news product is through the use of advanced technology.

Satellite news gathering vehicles may be creating product differentiation by allowing access to more events than would be possible without its capabilities. News directors say they feel having SNG capabilities places their station in a stronger competitive position if other firms in the market do not have SNG capabilities.

> If one station in a competitive market acquires an SNG truck, it will be differentiated in a way that will attract viewers. If other stations wish to maintain a competitive position in the market, they must follow suit.[84]

Another way to differentiate news product has been through program length. Initially, most local newscasts were thirty minutes in length. However, as news became more profitable, larger stations lengthened their newscasts from one to two hours in some cases. The Television Information Office reports 249 stations now broadcast one hour or more local news between four p.m. and seven p.m. as compared to 236 one year ago.[85] The VHF stations in larger markets carry from one half hour to two hours of local news.

However, as Table 4 indicates, Top Twenty stations are likely to vary their lengths from competitors especially, if they are number two in the ratings. Thirteen of the top twenty markets were chosen because of available data.

Table 5. Hours Devoted to Local Newscasts.

Market	Network Affiliates Listed According to Ratings		
	Top 20 Markets		
	Rated #1	Rated #2	Rated #3
New York	2	2	2
Chicago	1	1.5	1
Philadelphia	1.5	1.5	1
Dallas-Ft. Worth	1	1.5	1
Houston	1	1	1
Washington D.C.	1.5	2,2 (Tie)	
Cleveland	1	1.5	1
Atlanta	1	1	.5
Pittsburgh	1	1	.5
Miami	1.5	2	1
Minneapolis	2	1	1
Seattle	2.5	1.5	1.5
Denver	1.5	2	1.5
Mean	1.4	1.5	1.1
Overall Mean	1.36		

Medium Markets

*Numbers obtained from the 1986 November Neilsen ratings, during the early evening newscast time slot.

The stations that were number two in the market were more likely to differentiate their news product by adding more time. Medium markets sampled showed an average length of thirty minutes for their newscasts. Product differentiation such as varying length of newscasts in larger markets suggests competition between firms in those markets.

This section has attempted to show that several variables may have affected the oligopolistic market structure that has existed in local television news. In large markets where there was once only seven

competitors, there are now an average of fourteen. Where market shares for affiliates as a group once continued to increase, they now stay the same or decrease and vary between stations within a market. Where there were once identical newscasts, there are now attempts to differentiate products, especially when a station is trailing. Litman says that "if oligopolistic consensus is complete in all areas of contact, the industry can be said to be in a state of equilibrium and market shares will be stable over time."[54] The information presented seems to indicate that such an equilibrium in local news no longer exists, at least to the extent it once did.

Change in Equilibrium

The local television news market place may be described as increasingly competitive. It appears to be departing from its oligopolistic past where market shares for the network affiliates was high, entry was difficult and competition was limited. Rather, it is moving toward monopolistic competition "where there are many sellers but where there is product differentiation.[57] With the proliferation of cable, VCRs, and independent and satellite networks, the market is passing into a state of disequilibrium where there are more competitors for audience attention and advertiser dollars. Television is a "capacity-constrained, demand-driven business with inventory increasing more rapidly than revenue."[58] Given the hardened economic realities of the broadcast marketplace, what changes in local news departments can one expect to emerge?

The downturn in advertising revenue has resulted in a need for budgetary austerity. A few years ago, newsrooms could expect 10 to 15 percent increases in operating budgets every year. Now, news directors can usually only expect increases to keep pace with inflation, if that. Many are facing budget

cuts.[59] Therefore, news directors are being asked to do the same job they have always done... with less money.

Newsrooms are coping with the tightened economies in various ways. Operational budgets are being watched more closely. For example, news directors are cutting down on expenses such as telephone charges, travel expenses, satellite time, helicopter usage and overtime. Payroll is another area where news directors are looking to hold the line. "There is virtually no discussion of staff expansion, and even tougher negotiations on raises with organized labor and non-organized employees."[60] Phil Supple, news director at WEEK-TV in Peoria, Illinois said when reporters leave, the positions are simply never filled.[61] Also news directors may decide not to retain as many high-priced talent contracts as they have in the past. To make decisions such as these, news directors need to be good business managers, as well as good journalists because news departments are being asked to perform as a business, as well as a public service. There may be advantages to this increased austerity.

To the extent that newsrooms are the engines of better management and technological progress, economic efficiency can help the industry. Management has begun to realize that inefficiency no longer has a place in the business of television news.[62] John Spain, news director at WBRZ-TV Baton Rouge, said "There have been times when we were fat and not as careful with the dollars as we should have been."[63] Tightened economies have intensified the pressure for better business management of news operations. In this sense, the industry may be experiencing a short term disequilibrium, where increased competition is forcing it to compete as do other businesses. However, once they get used to working on a tighter budget and adjust to other entrants in the market, a tight oligopoly may be re-established, since it seems likely that the

affiliates will remain dominant in the industry. If this is so, the multiplication of competing media may be beneficial--viewers get alternative and competing information sources and the industry gets better managers and more efficiently run newsrooms.

Some possible disadvantages of increased economic efficiencies may be evident. With continued decreases in revenues, quality news reporters may more often seek stations where budgets are not as tight and wages are higher. A reduced staff may not be able to cover the news stories as effectively. This low budget and story-coverage ineffectiveness may lead to low morale and lack of enthusiasm, further compounding the problems of news gathering and reporting. With a station in such a state of performance, the non-news competition may be able to gain a stronger foothold, resulting in more revenue loss and lower ratings. All of this may not be seen immediately but may be a gradual eroding process.

Future research is needed to determine whether tightened economies will have a negative effect on the quality of news. Also statistical analysis needs to be made to see whether the industry as a whole is moving from oligopoly to monopolistic competition. To Adam Smithe "the vital principle underlying a market economy's successful functioning was the pursuit of individual self-interest, channelled and controlled by competition."[44] Since the local news industry seems to be in a position of increased competition, it is hoped Smithe's beliefs hold true.

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[51]Tony Atwater, "Product Differentiation in Local TV News," Journalism Quarterly 61 (Winter 1984): p. 757.

[52]Ibid., 758.

[53]Lacy, p. 7.

[54]Ibid., p. 2.

[55]"Local Network Affiliates Increase Early News Programming," Info-Pak, December 1987, p. 4.

[56]Litman, "Market Share Instability," p. 500.

[57]Edwin Mansfield, Principles of Microeconomics, Fourth Edition (New York: W.W. Norton & Company, 1983). p.252.

[58]CRI, p. 98.

[59]Button, p. 49.

[60]Ibid., p. 51.

[61]Interview with Phil Supple, News Director, WEEK TV, Peoria, IL., August, 1987.

[42]Button, p. 49.

[43]Ibid., p. 50.

[44]Scherer, p. 8-9.